

COLE ACADEMY
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Cole Academy
Lansing, Michigan

July 12, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cole Academy (the Academy), as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Cole Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cole Academy as of June 30, 2006 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Cole Academy
Lansing, Michigan

July 12, 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2006 on our consideration of Cole Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xi and 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cole Academy's basic financial statements. The additional information on pages 23 through 26 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Cole Academy's (Academy) annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Financial Highlights

- Expenditures exceeded revenues in the general fund by \$46,808, decreasing the general fund balance to \$101,490.
- General Fund Revenues decreased by 5.7 percent over the prior year to \$1,292,645. Blended enrollment used for state aid purposes was 158.0, a decrease of 10.9% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide financial statements that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Table A-1 shows how the various parts of the annual report are arranged and related to one another.

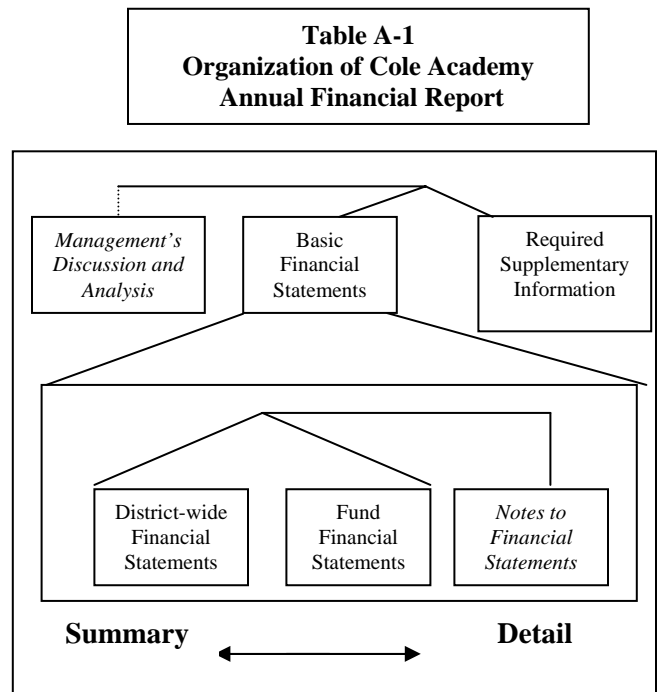


Table A-2 summarized the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Table A - 2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Fund Financial Statements
		Governmental funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary (the Academy does not have fiduciary funds)
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets - the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

In the Academy-wide financial statements, the Academy's activities:

- Governmental activities - The Academy's basic services are included in the general fund, such as regular education and administration. State foundation aid finances most of these activities.

Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law and by debt agreements.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like food services and athletics).

All of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Financial analysis of the Academy as a whole

Net assets - the Academy's combined net assets decreased from the prior year by \$63,574 increasing the deficit to \$256,613. See Table A - 3.

The total revenues decreased by 5.5% to \$1.36 million dollars.

The total cost of instruction decreased by 18.0% to \$659,686. The majority of the savings were realized via staff reductions of 3 full time teaching assistants and the elimination of the "Assistant to the Principal" saving on both salaries and fringe benefit costs. Purchases of new text books was also delayed until a later date. Total support service expenses decreased 10.4% to \$435,122, the majority of which was due to the elimination of the Superintendent position and reassignment of an administrative clerk, saving on both salaries and benefits. Cost savings in the food services area also benefited the school by lowering the amount needed to cover its shortfall by \$14,000.

Figure A-3		
Cole Academy Net Assets (Deficit)		
	2006	2005
Current assets	\$ 322,284	\$ 323,670
Restricted investments	330,339	334,825
Capital assets, net	1,790,745	1,826,586
Total assets	2,443,368	2,485,081
Current liabilities	308,674	264,379
Long-term debt outstanding	2,391,307	2,413,741
Total liabilities	2,699,981	2,678,120
Net assets:		
Invested in capital assets, net of related debt	(623,139)	(604,454)
Restricted for debt service	285,036	283,117
Unrestricted	81,490	128,298
Total net assets (deficit)	\$ (256,613)	\$ (193,039)

Figure A-4		
Changes in Cole Academy's Net Assets		
	2006	2005
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 172,951	\$ 157,591
Charges for services	13,768	17,029
General revenues:		
State aid - unrestricted	1,133,650	1,240,775
ISD - Special Education	13,279	-
Investment income	10,292	3,821
Local sources	12,066	15,323
Total revenues	1,356,006	1,434,539
Expenses:		
Instruction	659,686	804,282
Support services	435,122	485,671
Food services	63,234	75,374
Athletics	1,130	838
Interest on long-term debt	193,175	193,756
Unallocated depreciation	67,233	64,290
Total expenses	1,419,580	1,624,211
Change in net assets	\$ (63,574)	\$ (189,672)

Financial analysis of the Academy's funds

As the Academy completed the year, its governmental funds reported combined fund balances of \$414,823, a decrease of \$44,886 from last year's total of \$459,709. General fund revenues decreased by \$78,837 while expenditures decreased by \$170,209. General fund local revenues were decreased in part because of lower enrollment figures. The majority of the decrease in expenditures was attributable to cuts in staffing size.

The general fund balance decreased \$46,808 (31.6%) to \$101,490. This represents approximately 1 month of the 2006 total general fund expenditures.

The general fund transferred \$11,109 to the food service program to cover expenditures in excess of revenues.

General fund budgetary highlights

Over the course of the year, the Academy revised the annual operating budget, most recently in June of 2006. Total general fund revenues and instruction expenditures decreased from the original to final budgets by approximately \$66,000 and \$77,000, respectively. Support services expenditures increased from the original to final budget by approximately \$40,000. The primary cause for the revisions was a decrease in the budgeted blended pupil count. The support services needed to be increased due to costs associated with the hiring of "National Charter Schools Institute" as consultants in helping the school change over its administration staff and procedures.

Capital asset and debt administration

Capital assets

As of June 30, 2006, the Academy had invested \$1,790,745 in capital assets consisting primarily of land, buildings and improvements, equipment and furniture net of accumulated depreciation. This amount represents a decrease in capital assets of \$35,841 from the beginning of the year. More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year was \$67,233.

The Academy's capital assets are as follows:

Figure A-5				
Cole Academy's Capital Assets				
	2006			2005
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>	<u>Net book value</u>
Building and improvements	\$ 1,596,569	\$ 215,838	\$ 1,380,731	\$ 1,416,856
Equipment and furniture	232,796	97,782	135,014	134,730
Land	275,000		275,000	275,000
Total	<u>\$ 2,104,365</u>	<u>\$ 313,620</u>	<u>\$ 1,790,745</u>	<u>\$ 1,826,586</u>

Long-term debt

At year-end the Academy had \$2,410,000 of full term certificates of participation and \$3,884 capital lease obligation outstanding. This represents a net decrease of \$17,156 resulting from the repayment of certificates of participation and capital lease. (More detailed information about the Academy's long-term debt is presented in Note 6 to the financial statements).

Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

The enrollment was capped by the Board of Directors at 180 students for the 2004-2005 school year. Enrollment was 190 students for the 2003-2004 school year. They established a cap of 180 students to maintain a low ratio between student and classroom staff. Although capping the school at 180 may result in a decrease in school funding, the Board continues to believe it is in the best interest of the child to maintain a lower ratio to ensure academic success. As time passes, the Board has the ability to revisit the cap to allow additional students, as long as it is in the best interest of the school to expand.

The 2005-2006 foundation allowance (state aid funding) from the State of Michigan was \$7,175 per student. The foundation allowance represents 87% of the total Academy revenue.

Review of the staff salaries revealed discrepancies when compared to other schools in the area. When analyzing comparable salaries in the area, it was clear that prior pay rates had compensated some staff beyond the school's means. Current measures to manage staff salaries include pay rates based more on the norm for similar positions at other area schools (especially charter schools). Going forward, the Academy will look to implement increases, if they are warranted, by the financial status of the school.

The major area of focus going forward will be in maintaining and growing student enrollment. It is felt that the educational foundation has been solidified and continues to be improved. A school wide computer system was installed, including wiring to a central server to allow for sharing of programs and quicker transfer of information between staff. Many measures have taken place to better monitor the financial well being of the academy, along with greater emphasis on spending for need rather than want items. With these ideas being in place, the need to keep enrollment at current, or higher, levels becomes the focal point to the academy's success.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's office at 1915 West Mount Hope in Lansing, Michigan, 48910.

**COLE ACADEMY
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Governmental activities
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 125,367
Due from other governmental units	196,917
	<hr/>
TOTAL CURRENT ASSETS	322,284
	<hr/>
NONCURRENT ASSETS:	
Restricted investments	330,339
	<hr/>
Capital assets	2,104,365
Less accumulated depreciation	(313,620)
	<hr/>
Net capital assets	1,790,745
	<hr/>
TOTAL NONCURRENT ASSETS	2,121,084
	<hr/>
TOTAL ASSETS	<u><u>\$ 2,443,368</u></u>
LIABILITIES AND NET ASSETS (DEFICIT)	
CURRENT LIABILITIES:	
Accounts payable	\$ 10,790
Accrued interest	48,297
Accrued salaries and related items	101,534
Other accrued expenses	6,187
Note payable	119,289
Current portion of long-term obligations	22,577
	<hr/>
TOTAL CURRENT LIABILITIES	308,674
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	2,391,307
	<hr/>
TOTAL LIABILITIES	2,699,981
	<hr/>
NET ASSETS (DEFICIT):	
Invested in capital assets, net of related debt	(623,139)
Restricted for debt service	285,036
Unrestricted	81,490
	<hr/>
TOTAL NET ASSETS (DEFICIT)	(256,613)
	<hr/>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u><u>\$ 2,443,368</u></u>

See notes to financial statements.

**COLE ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 659,686	\$	\$ 133,068	\$ (526,618)
Support services	435,122			(435,122)
Food services	63,234	13,064	39,883	(10,287)
Athletics	1,130	704		(426)
Interest on long-term debt	193,175			(193,175)
Unallocated depreciation expense	67,233			(67,233)
Total governmental activities	<u>\$ 1,419,580</u>	<u>\$ 13,768</u>	<u>\$ 172,951</u>	<u>(1,232,861)</u>
General revenues:				
Investment earnings				10,292
State sources				1,133,650
Local sources				12,066
Ingham ISD - special education allocation				<u>13,279</u>
Total general revenues				<u>1,169,287</u>
CHANGE IN NET ASSETS				(63,574)
NET ASSETS (DEFICIT), beginning of year				<u>(193,039)</u>
NET ASSETS (DEFICIT), end of year				<u>\$ (256,613)</u>

See notes to financial statements.

	General fund	Debt service fund	Other nonmajor governmental funds	Total governmental funds
ASSETS				
	\$ 125,367	\$ 17,006	\$ 966	\$ 125,367
		313,333		330,339
	195,951		966	196,917
	966			966
	<u>\$ 339,290</u>	<u>\$ 313,333</u>	<u>\$ 966</u>	<u>\$ 653,589</u>

LIABILITIES:					
Accounts payable	\$	10,790	\$	\$	10,790
Accrued salaries and related items		101,534			101,534
Other accrued expenses		6,187			6,187
Due to other funds				966	966
Note payable		119,289			119,289
TOTAL LIABILITIES		237,800		966	238,766

	General fund	Debt service fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:				
Reserved for debt service	20,000	313,333		333,333
Unreserved, undesignated	81,490			81,490
TOTAL FUND BALANCES	101,490	313,333		414,823
TOTAL LIABILITIES AND FUND BALANCES	\$ 339,290	\$ 313,333	\$ 966	\$ 653,589
TOTAL GOVERNMENTAL FUND BALANCE				\$ 414,823

Amounts reported for governmental activities in the statement of net assets are different because:
Capital assets used in governmental activities are not financial resources and are not reported in the funds:

The cost of the capital assets is	\$ 2,104,365	
Accumulated depreciation is	(313,620)	
	<u>1,790,745</u>	
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Certificates of participation		(2,410,000)
Capital lease obligation		(3,884)
Accrued interest is not included as a liability in government funds, it is recorded when paid		<u>(48,297)</u>
Net assets (deficit) of governmental activities		\$ (256,613)

COLE ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General fund	Debt service fund	Other nonmajor governmental funds	Total governmental funds
REVENUES:				
Local sources:				
Private sources	\$ 2,178	\$	\$	\$ 2,178
Food service			13,064	13,064
Athletics			704	704
Investment income	582	9,710		10,292
Other	9,888			9,888
Total local sources	12,648	9,710	13,768	36,126
State sources	1,177,316		2,158	1,179,474
Federal sources	89,402		37,725	127,127
Intermediate school district	13,279			13,279
Total revenues	1,292,645	9,710	53,651	1,356,006
EXPENDITURES:				
Instruction:				
Basic programs	521,680			521,680
Added needs	152,879			152,879
Total instruction	674,559			674,559
Support services:				
Instructional staff	5,977			5,977
General administration	64,146			64,146
School administration	259,680			259,680
Business	37,453			37,453
Operation and maintenance	69,607			69,607
Central services	13,953			13,953
Total support services	450,816			450,816
EXPENDITURES (Concluded):				
Current (Concluded):				
Athletics	\$	\$	\$ 1,130	\$ 1,130
Food service			64,056	64,056
Debt service:				
Principal retirement	2,156	15,000		17,156
Interest and fiscal charges		193,175		193,175
Total expenditures	1,127,531	208,175	65,186	1,400,892
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	165,114	(198,465)	(11,535)	(44,886)
OTHER FINANCING SOURCES (USES):				
Operating transfers in		200,387	11,535	211,922
Operating transfers out	(211,922)			(211,922)
Total other financing sources (uses)	(211,922)	200,387	11,535	
NET CHANGE IN FUND BALANCES	(46,808)	1,922		(44,886)
FUND BALANCES:				
Beginning of year	148,298	311,411		459,709
End of year	\$ 101,490	\$ 313,333	\$	\$ 414,823

COLE ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Net change in fund balances total governmental funds	\$ (44,886)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	(67,233)
Capital outlay	31,392
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable, beginning of the year	48,294
Accrued interest payable, end of the year	(48,297)
Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities):	
Principal repayment	17,156
Change in net assets of governmental activities	<u><u>\$ (63,574)</u></u>

COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Cole Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Reporting Entity

The Cole Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Central Michigan University is the authorizing governing body for the Academy. The Academy's board of directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued)

B. Government-wide and fund financial statements (Concluded)

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental fund:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service and athletic activities in the special revenue funds.

**COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

**COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

The state portion of the foundation is provided primarily by a state education property tax mileage of 6 mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

D. Other Accounting Policies

1. Cash and equivalents

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intend to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”.

All receivables are shown net of an allowance for uncollectibles.

3. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building and improvements	10 - 39 years
Furniture and other equipment	5 - 10 years

The Academy’s capitalization policy is to capitalize individual amounts exceeding \$1,000.

4. Long-term obligation

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets.

In the fund financial statements, governmental fund types recognize certificates of participation premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether of not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

5. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

6. Fund balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Annual appropriations expire at the end of the fiscal year.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The School Administrator submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

**COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

3. The School Administrator is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The Academy does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND RESTRICTED INVESTMENTS

As of June 30, 2006, the Academy had the following investments.

Investment Type	Fair value	Weighted average maturity (years)	Standard & Poor's Rating	%
First American Treasury Obligation Fund - class A	<u>\$ 330,339</u>	<u>0.0027</u>	AAAm	<u>100%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The Academy voluntarily invests certain excess funds in external pooled investment funds which included treasury obligations. The treasury obligation reports as of June 30, 2006, the fair value of the Academy's investments is the same as the value of the pool shares. The above investments are restricted for payment of debt service and maintenance and repair of school facilities.

Interest rate risk. The Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DEPOSITS AND RESTRICTED INVESTMENTS (Concluded)

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2006, \$27,558 of the Academy's bank balance of \$127,558 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

Foreign currency risk. The Academy is not authorized to invest in investments which have this type of risk.

COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	2005	Additions	Deletions	2006
Governmental Activities:				
Capital assets, not being depreciated:	\$ 275,000	\$	\$	\$ 275,000
Land				
Capital assets, being depreciated:				
Buildings and improvements	1,588,389	8,180		1,596,569
Equipment and furniture	209,584	23,212		232,796
Total capital assets being depreciated	1,797,973	31,392		1,829,365
Accumulated depreciation:				
Buildings and improvements	171,533	44,305		215,838
Equipment and furniture	74,854	22,928		97,782
Total accumulated depreciation	246,387	67,233		313,620
Net capital assets being depreciated	1,551,586	(35,841)		1,515,745
Net governmental capital assets	\$ 1,826,586	\$ (35,841)	\$ -	\$ 1,790,745

Depreciation for the fiscal year ended June 30, 2006 amounted to \$67,233. The Academy determined it is impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - NOTE PAYABLE

At June 30, 2006, the Academy has \$119,289 outstanding from a revenue note dated September 16, 2005. The note, which has an interest rate of 7.125 %, matures August 25, 2006. The note is secured by future state school aid payments.

<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2006</u>
<u>\$ 45,588</u>	<u>\$ 200,000</u>	<u>\$ 126,299</u>	<u>\$ 119,289</u>

NOTE 6 - LONG-TERM DEBT

In 2001, the Academy issued full term certificates of participation for the acquisition and improvements of a school building and land. Full term certificates of participation are direct obligations for which the Academy has pledged 20% of State Aid.

Long-term debt currently outstanding is as follows:

2001 series, full term certificates of participation requiring principal and interest payments, due annually ranging from \$212,013 to \$410,838 through April 1, 2031, with interest rates ranging between 7.75% and 8.125%.	\$ 2,410,000
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Capital lease with monthly installments of \$240 through November 2007, with an interest rate of 11.5%.	<u>3,884</u> <u>\$ 2,413,884</u>
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COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debts outstanding as of June 30 are as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 22,577	\$ 192,310	\$ 214,887
2008	26,307	190,497	216,804
2009	35,000	188,525	223,525
2010	40,000	185,812	225,812
2011	45,000	182,713	227,713
2012-2016	270,000	857,337	1,127,337
2017-2021	390,000	736,088	1,126,088
2022-2026	565,000	556,775	1,121,775
2027-2031	1,020,000	289,656	1,309,656
	<u>\$ 2,413,884</u>	<u>\$ 3,379,712</u>	<u>\$ 5,793,596</u>

An amount of \$313,333 is available in the debt service funds to service the full term certificates of participation. The certificates may be paid off early beginning in 2011 at the discretion of the Academy at stated amounts based on the terms of the agreement.

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2006:

Long-term debt, July 1, 2005	\$ 2,431,040
Deductions:	
Principal payments on certificates of participation and capital lease	<u>(17,156)</u>
Balance, June 30, 2006	2,413,884
Less current portion	<u>(22,577)</u>
Total due after one year	<u>\$ 2,391,307</u>

**COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2006 are as follows:

<u>Receivable fund</u>		<u>Payable fund</u>	
General	<u>\$ 966</u>	Special revenue	<u>\$ 966</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The Academy contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPSERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the Academy. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

The Academy is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2006, were 14.87% through September 2005 and 16.34% for October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the Academy are established and may be amended by the MPSERS Board of Trustees. The Academy contributions to MPSERS for the years ended June 30, 2006, 2005 and 2004 were approximately \$99,000, \$119,000 and \$97,500, respectively, equal to the required contribution for each year.

The Academy is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Also within the MPSERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPSERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPSERS with the balance deducted from the monthly pension.

NOTE 9 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to the Central Michigan University Board of Trustees, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2006, the Academy incurred expense of approximately \$34,000 for oversight fees.

NOTE 10 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. To minimize the risk, the Academy carries commercial insurance.

**COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - TRANSFERS

Operating transfers between the governmental funds were as follows:

<u>Operating transfers out</u>		<u>Operating transfers in</u>	
General fund	\$ 211,922	School lunch fund	\$ 11,109
		Debt service fund	200,387
		Athletic fund	426
	<u>\$ 211,922</u>		<u>\$ 211,922</u>

The general fund transfers state aid revenues to the debt service fund to meet principal and interest payments on the certificates of participation. The general fund transfers funds to the special revenue fund and athletic fund to cover operating shortfalls.

REQUIRED SUPPLEMENTARY INFORMATION

**COLE ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006**

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local	\$ 6,200	\$ 10,855	\$ 12,648	\$ 1,793
State sources	1,283,981	1,177,320	1,177,316	(4)
Federal sources	66,966	89,400	89,402	2
Intermediate school district		13,280	13,279	(1)
Total revenues	1,357,147	1,290,855	1,292,645	1,790
EXPENDITURES:				
Instruction:				
Basic programs	644,740	519,200	521,680	(2,480)
Added needs	104,322	153,000	152,879	121
Total instruction	749,062	672,200	674,559	(2,359)
Support services:				
Instructional staff	10,000	6,000	5,977	23
General administration	54,473	62,350	64,146	(1,796)
School administration	234,664	263,325	259,680	3,645
Business	32,500	37,475	37,453	22
Operation and maintenance	67,318	69,625	69,607	18
Central services	13,600	13,925	13,953	(28)
Total support services	412,555	452,700	450,816	1,884
	Original budget	Final budget	Actual	Variance with final budget positive (negative)
EXPENDITURES: (Concluded)				
Principal retirement on debt obligation	\$ 2,800	\$ 2,175	\$ 2,156	\$ 19
Total expenditures	1,164,417	1,127,075	1,127,531	(456)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	192,730	163,780	165,114	1,334
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(207,652)	(212,625)	(211,922)	703
Total other financing sources (uses)	(207,652)	(212,625)	(211,922)	703
NET CHANGE IN FUND BALANCE				
	\$ (14,922)	\$ (48,845)	(46,808)	\$ 2,037
FUND BALANCES:				
Beginning of year			148,298	
End of year			\$ 101,490	

ADDITIONAL INFORMATION

**COLE ACADEMY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2006**

	<u>Food service fund</u>	<u>Athletics fund</u>	<u>Total nonmajor governmental funds</u>
ASSETS			
ASSETS:			
Due from other governmental units	\$ 966	\$	\$ 966
	<u> </u>	<u> </u>	<u> </u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Due to other funds	\$ 966	\$	\$ 966
	<u> </u>	<u> </u>	<u> </u>

COLE ACADEMY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2006

	Food service fund	Athletics fund	Total nonmajor governmental funds
REVENUES:			
Sale of lunches and milk	\$ 13,064	\$	\$ 13,064
Athletic events		704	704
State sources	2,158		2,158
Federal aid	37,725		37,725
	<hr/>	<hr/>	<hr/>
Total revenues	52,947	704	53,651
	<hr/>	<hr/>	<hr/>
EXPENDITURES:			
Salaries and wages	23,359		23,359
Employee benefits	4,871		4,871
Supplies and other expenses	35,004	530	35,534
Dues and fees		600	600
Capital outlay	822		822
	<hr/>	<hr/>	<hr/>
Total expenditures	64,056	1,130	65,186
	<hr/>	<hr/>	<hr/>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(11,109)	(426)	(11,535)
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES:			
Net operating transfer in from general fund	11,109	426	11,535
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	<hr/>	<hr/>	<hr/>
FUND BALANCES, beginning of year	<hr/>	<hr/>	<hr/>
FUND BALANCES, end of year	<hr/>	<hr/>	<hr/>
	<u>\$</u>	<u>\$</u>	<u>\$</u>

COLE ACADEMY
FULL TERM CERTIFICATES OF PARTICIPATION, SERIES 2001
YEAR ENDED JUNE 30, 2006

\$2,440,000 Certificates issued April 12, 2001

Principal due April 1	Interest due		Debt service requirement for fiscal year	
	October 1	April 1	June 30,	Amount
\$ 20,000	\$ 96,007	\$ 96,006	2007	\$ 212,013
25,000	95,231	95,232	2008	215,463
35,000	94,263	94,262	2009	223,525
40,000	92,906	92,907	2010	225,813
45,000	91,357	91,356	2011	227,713
45,000	89,612	89,612	2012	224,224
50,000	87,869	87,869	2013	225,738
55,000	85,931	85,931	2014	226,862
60,000	83,800	83,800	2015	227,600
60,000	81,475	81,475	2016	222,950
65,000	79,150	79,150	2017	223,300
70,000	76,631	76,632	2018	223,263
80,000	73,918	73,919	2019	227,837
85,000	70,819	70,819	2020	226,638
90,000	67,525	67,525	2021	225,050
95,000	64,037	64,037	2022	223,074
105,000	60,238	60,238	2023	225,476
115,000	56,037	56,037	2024	227,074
120,000	51,437	51,437	2025	222,874
130,000	46,638	46,638	2026	223,276
140,000	41,438	41,438	2027	222,876
155,000	35,750	35,750	2028	226,500
165,000	29,453	29,452	2029	223,905
180,000	22,750	22,750	2030	225,500
380,000	15,438	15,400	2031	410,838
<u>\$ 2,410,000</u>	<u>\$ 1,689,710</u>	<u>\$ 1,689,672</u>		<u>\$ 5,789,382</u>

The above certificates bear interest rates ranging from 7.75% to 8.125%. The certificate proceeds were used for the acquisition of real property and improvements thereto.

**COLE ACADEMY
CAPITALIZED LEASE
YEAR ENDED JUNE 30, 2006**

\$9,270 capitalized lease dated December 18, 2003.

<u>Year ended June 30,</u>	<u>Principal due</u>	<u>Interest due</u>	<u>Amount</u>
2007	\$ 2,577	\$ 297	\$ 2,874
2008	<u>1,307</u>	<u>34</u>	<u>1,341</u>
	<u>\$ 3,884</u>	<u>\$ 331</u>	<u>\$ 4,215</u>



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Racek
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Cole Academy
Lansing, Michigan

July 12, 2006

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cole Academy as of and for the year ended June 30, 2006, which collectively comprise Cole Academy's basic financial statements and have issued our report thereon dated July 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cole Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
Cole Academy
Lansing, Michigan

July 12, 2006

Compliance

As part of obtaining reasonable assurance about whether Cole Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Cole Academy in a separate letter dated July 12, 2006.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education and the Michigan Department of Education and is not intended and should not be used by anyone other than these specific parties.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountants



Lamonte T. Lator
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David B. Caldwell
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Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

July 12, 2006

To the Board of Education
Cole Academy
Lansing, Michigan

In planning and performing our audit of the financial statements of Cole Academy for the year ended June 30, 2006, we considered the Academy's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated July 12, 2006 on the financial statements of Cole Academy.

Repeat Comments:

Government Accounting Standards Board (GASB) Statement #40 "*Deposit and Investment Risk Disclosures*"

Effective June 30, 2005, governmental entities were required to expand their current disclosure requirements addressing common risks of the deposits and investments. The disclosure requirements apply to debt and an equity investment held directly by the entity or indirectly by investment advisors and requires that a governmental entity disclose investment policies that are related to custodial credit risk, custodial risk, concentration of credit risk, interest rate risk, and foreign currency risk.

The Academy has not adopted a written investment policy to address these risks. The Academy should review its investment policies to determine all common risks areas are identified and the appropriate level of risk of each area is quantified.

Current year comments:

Bank Reconciliation Process

Currently the Business Manager opens the unopened bank statement, reviews cancelled checks and reconciles the monthly bank account. To improve internal control, the Chief Administrative Officer (CAO) should receive the unopened bank statement and review the cancelled checks and debit card activity for potential improprieties. The CAO should initial the statement as evidence of review.

School Lunch Receipts

The Academy should consider purchasing pre-numbered lunch tickets. The issued tickets should be recorded and an individual independent of the receipts function should reconcile the number of tickets issued with the amount of cash collected on a regular basis. The reconciliation should be available to the Business Manager to oversee and review.

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the chief administrative officer and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the district in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where an academy's actual revenues were less than budgeted revenues and, at the same time, depleted the Academy fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. While there may be technical violations of the act we believe the Academy's current budget procedures are adequate.

Cash Management-Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the Academy within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the Academy request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the Academy's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the Academy beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the Academy could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the Academy. We will have to evaluate the Academy's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists.

To the Board of Education
Cole Academy
Lansing, Michigan

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July 12, 2006

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Academy personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Cole Academy, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costerisan + Ellis, P.C.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
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July 12, 2006

To the Board of Education
Cole Academy
Lansing, Michigan

We have audited the financial statements of Cole Academy for the year ended June 30, 2006, and have issued our report thereon dated July 12, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated May 5, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Cole Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Cole Academy compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Cole Academy are described in Note 1 to the financial statements. We noted no transactions entered into by the Academy during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates to report.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Cole Academy's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Cole Academy, either individually or in the aggregate, indicate matters that could have a significant effect on Cole Academy's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the Cole Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Board of Education
Cole Academy
Lansing, Michigan

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July 12, 2006

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Education and management of Cole Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costerisan + Ellis, P.C.